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We want to hear from you
Please take this quick survey and tell us what you thought of this content.
Our commitment to audit quality

In order for our capital markets to function effectively, the public must have confidence in the reliability of financial information presented by businesses, in the methodology used to produce that information, and in the independence, professional skepticism, and quality applied to financial statement audits. At Grant Thornton we recognize that the market needs robust, accurate and transparent information about the quality control systems of every audit firm in order to gain that confidence. It is for that reason that we have embarked on the path that led to this Audit Quality and Transparency Report.

Over the past several years we have renewed and increased our focus on the components of audit quality. Our efforts have centered on our tools and methodologies; training and technical competency; accountability for quality and linkage to compensation; client acceptance and risk management procedures; national office support and quality monitoring; internal inspection staffing and procedures; and the tone from the top regarding the importance and necessity of audit quality. We have driven improvements in each of these areas, all while maintaining the best client service in the auditing business.

In the next few pages we hope to give you a glimpse of that journey, an understanding of where we are today and a picture of where we want to be tomorrow. We want to be the auditor of choice, not for every company out there, but for every company in our market space that is committed to excellence, both in their business and in their financial reporting. If you want a high-quality audit coupled with excellent client service, then we want to be your auditor.

At Grant Thornton, we are committed to continually improving our audit quality. And our commitment is to keep improving — in addition to working to provide the most enlightening transparency report in the profession. Our belief is that the combination of continual improvement in quality and increased transparency will lead to a recognition by the market that Grant Thornton is an audit firm that exhibits quality without question.

Jeffrey L. Burgess
National Managing Partner of Audit Services
Grant Thornton LLP
Who we are and what we do

Legal structure

Grant Thornton LLP\(^1\) is the U.S. member firm of Grant Thornton International Ltd (GTIL), one of the world’s leading organizations of independent audit, tax and advisory firms. Grant Thornton LLP is a limited liability partnership registered under the Illinois Uniform Partnership Act (1997). In this report, Grant Thornton LLP may be referred to as the firm, the partnership, Grant Thornton, we, our and us. Grant Thornton International and its member firms are not a worldwide partnership, as each member firm is a separate and distinct legal entity.

Our ownership structure and our business

Grant Thornton LLP is entirely owned by its partners and principals\(^3\), which numbered 570 on July 31, 2016, up from 523 in 2015.\(^4\)

Grant Thornton LLP is a leading professional services firm consisting of three primary lines of business: Audit, Advisory and Tax services, which compose approximately 38%, 36% and 26%, respectively, of our net revenues. Our 59 U.S. offices are structured around a broad range of industries, which allows our partners and employees to provide personalized attention and the highest-quality service to public and private clients without regard to geographical boundaries. We operate across 11 U.S. market territories that are grouped into three regions, East, Central and West.

Governance and management of Grant Thornton LLP

Grant Thornton LLP is structured as a limited liability partnership and is governed by the chief executive officer (CEO), Senior Leadership Team and Partnership Board. Appendix B provides a summary of the responsibilities for each branch of governance and lists the current members.

In the audit practice, the audit practice leaders (APLs) and professional practice directors (PPDs) are responsible locally for setting the proper tone of professional excellence. The APLs and PPDs report up to the national managing partner of Audit Services, with the APLs reporting through the regional APLs; and the PPDs reporting through the national office. The APL is responsible for overseeing delivery of audit services in his or her market territory, including staffing, training and day-to-day audit operations. The PPD works with the APL to conduct local risk assessments and quality control reviews, deliver training, and serves as a liaison between engagement teams and others in the national office regarding technical consultations.

Figure 1 shows a more complete picture of how our audit practice is organized, between engagement delivery (in purple) and our full suite of audit support groups within the national office (in orange).

A summary of our revenue by service line and our audit revenue by industry is included in Figures 2 and 3.

<table>
<thead>
<tr>
<th>Grant Thornton member firms worldwide</th>
<th>U.S. member firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (USD)</td>
<td>$4.79 billion</td>
</tr>
<tr>
<td>Personnel w/partners</td>
<td>47,003</td>
</tr>
<tr>
<td>Partners</td>
<td>3,235</td>
</tr>
<tr>
<td>Offices(^6)</td>
<td>701</td>
</tr>
</tbody>
</table>


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1. Grant Thornton LLP (Grant Thornton) is the U.S. member firm of Grant Thornton International Ltd (GTIL), and/or refers to the brand under which the independent network of GTIL member firms provide services to their clients, as the context requires. GTIL and each of its member firms are not a worldwide partnership and are not liable for one another’s acts or omissions. In the United States, visit grantthornton.com for details.
2. Information about Grant Thornton International Ltd, including its annual transparency report, can be found at gti.org.
3. Partners are U.S. Certified Public Accountants (CPAs). Principals may have other designations, but are not CPAs. Their rights and privileges as owners of the firm are the same. In this report, reference to partners is to both partners and principals.
4. Unless otherwise noted, all full-year data in this report is as of our most recently completed fiscal year, which ended July 31, 2016. Prior fiscal years’ data is shown for purposes of comparison where appropriate. The qualitative information in this report is current as of the date of this report.
5. A full list of our services and current U.S. office locations can be found at grantthornton.com.
Figure 1: Audit Services organizational chart

Managing Partner of Audit Services

- Regional APLs (3)
- Market Territory APLs (11)
- Audit Engagement Teams
  - Professional Practice Directors
  - Securities Regulation
  - Accounting Principles
  - Auditing Standards & Methodology
  - Independence & Ethics
  - Internal Inspections
  - Client Acceptance
  - National Professional Standards Group
  - Audit Risk Management

Figure 2: Net revenue dollars ($ millions)

- 2014
- 2015
- 2016

Figure 3: Audit revenue allocation by industry

- 2014
- 2015
- 2016

Audit Services
Advisory
Tax

- Services
- Government
- Health care
- Not-for-profit
- Energy
- CRHR
- Technology
- Financial services
- Consumer & Industrial Products
Quality control and external monitoring

For over 90 years, Grant Thornton LLP has been focused on delivering high-quality audits with exceptional client service in an ever-changing environment. Our most recent efforts to enhance audit quality began in 2010. It was then that we saw most clearly the need for improvement across the entire auditing profession. And so we embarked on an effort to find real enhancement opportunities in the way Grant Thornton conducts and oversees audits. Since then, every year has seen a concerted effort to build on the improvements of prior years, and the results are showing. Our internal and external audit quality inspection results show improvement, and the rate of restatement of audit client financial statements has declined — all while maintaining a superior level of service and personal attention. Appendix A lists just a few of the things we have done to drive positive change and momentum in our audit practice over the past several years.

In this section you will learn about the structure of our quality control system, including our:

- Processes for initiating audit engagements
- Professional experience, staffing and turnover
- Infrastructure designed to support high-quality audit delivery
- Accountability and linkage of quality to compensation
- Interaction with Grant Thornton International’s quality control procedures

Quality control system

Grant Thornton International Ltd (GTIL) and Grant Thornton LLP (Grant Thornton) have put in place professional standards, service delivery systems, quality controls and risk management systems to provide the necessary framework to meet the high-quality standards of the firm and the profession. Our people have both the latest training and the most effective tools to build, earn and secure the public trust.

Initiating an engagement

Our audit quality control and risk management starts with our efforts to (1) ensure that we deal with clients who share our commitment to excellence (client acceptance), (2) ensure that we have the skills and capabilities to audit the client’s financial statements (engagement acceptance), and (3) plan and execute each engagement to meet or exceed the relevant auditing standards. You can read more about the first component in the discussion about our client acceptance procedures on page 22.

The last two components — ensuring that we have the right skills and capabilities, and beginning the audit planning process — start with an appropriate risk assessment. Each audit engagement is categorized by reference to its risk, complexity and any specialized experience requirements. This categorization is used to help set the agenda for the audit, including identifying additional quality control procedures and, where necessary, involvement of the firm’s industry specialists. We also use this evaluation to drive the planned timing and staffing of our audit work.

The initial acceptance of audit engagements must be approved by a partner from outside the proposed audit team. Engagements with certain risk characteristics must also be preapproved by an objective committee of partners, and in certain circumstances, require consultation with Grant Thornton International Ltd.

A similar process for continuance of engagements is required on an annual basis. Significant changes in circumstances or the presence of other risk indicators requires approval by a partner outside of the audit team, an objective committee or GTIL. On rare occasions where a commitment to integrity may be lacking, we will reconsider our continuing audit relationship.
Professional experience, staffing and turnover

Substantial partner, managing director and manager involvement is required throughout the audit process. This includes giving honest feedback, coaching and mentoring, encouraging consultation, and providing on-the-job training.

Technical excellence, audit quality and ethical behaviors are reinforced to all audit professionals during their induction and throughout subsequent learning programs. Included within these programs is a continual reminder that a foundational expectation on all audit engagements is to maintain an objective and skeptical mindset when conducting the audit. The application of technical expertise is a key competency assessed within the mandatory annual performance appraisal process. In addition, partners and staff involved in the audit of certain clients, such as listed companies, must first be suitably accredited (for example, prior attendance at mandatory training programs, sufficient public company audit experience, industry experience and other criteria).

The mix of engagement personnel based on experience level is also a significant driver of audit quality. Having an appropriate level of partner/managing director time in relation to total engagement hours helps ensure proper oversight and provides our clients with the best level of service and advice. At the same time, leveraging the right work effectively to younger staff helps them develop and become bright leaders of the future. At Grant Thornton we strive to reach an optimal staffing model that provides more partner/manager time than our global competitors, yet still provides great learning opportunities for our professionals.

The tables below show our average full-time-equivalent headcount by level and key ratios of engagement hours. Our current ratio of audit partners to audit staff is outstanding in comparison to our global competitors at 1-to-8. On a long-term basis we believe the optimal leverage ratio — one that provides the best balance of quality, oversight and efficiency — is 1-to-10, which is a goal we would like to reach in the next few years. In comparison, we believe most of our global competitors have partners supervising 10–20% more staff with ratios in the 1-to-11 or 1-to-12 range, or more.

**Figure 4:** Average full-time-equivalent audit personnel

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>248</td>
<td>249</td>
<td>265</td>
</tr>
<tr>
<td>Managing directors</td>
<td>41</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Sr. mgrs., Managers, Directors</td>
<td>426</td>
<td>409</td>
<td>436</td>
</tr>
<tr>
<td>Senior associates</td>
<td>552</td>
<td>566</td>
<td>644</td>
</tr>
<tr>
<td>Associates</td>
<td>854</td>
<td>862</td>
<td>968</td>
</tr>
<tr>
<td>Total</td>
<td>2,121</td>
<td>2,130</td>
<td>2,357</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratio of partners to nonpartner personnel</th>
<th>1-to-7.6</th>
<th>1-to-7.5</th>
<th>1-to-7.9</th>
</tr>
</thead>
</table>
Another useful quality metric is the ratio of audit hours by supervisor compared to the total number of audit hours below the supervisory level. In general, lower ratios indicate a more concentrated and direct level of supervision. Figure 5 below shows that, on average, every two hours of Grant Thornton manager audit time are covered by one hour of partner/managing director time. Likewise, approximately 4.5 hours of staff time are covered by one hour of manager time; and every 9-10 hours of total staff time are covered by one hour of partner/managing director time. Most of our competitors do not publish these statistics, but for those that do, their partners tend to supervise a much higher number of audit hours than those indicated below. Our leverage model is designed to provide a high level of partner and senior team member involvement to drive quality and to facilitate staff development.

Figure 5: Grant Thornton ratio of audit supervisory hours to staff hours

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner/Managing Director to Manager</td>
<td>1-to-2.2</td>
<td>1-to-2.1</td>
<td>1-to-2.1</td>
</tr>
<tr>
<td>Manager to Staff</td>
<td>1-to-4.1</td>
<td>1-to-4.4</td>
<td>1-to-4.8</td>
</tr>
<tr>
<td>Partner/Managing Director to Staff</td>
<td>1-to-8.9</td>
<td>1-to-9.1</td>
<td>1-to-10.2</td>
</tr>
</tbody>
</table>

Turnover of audit personnel is also a relevant influencer of audit quality. All of the large accounting firms are staffed in a pyramid structure, with the majority of professionals in the lower half of the pyramid. In most firms it takes approximately 12-15 years to migrate from the lowest levels of the pyramid to the highest. Along the way, the pyramid narrows as professionals leave — usually for careers or opportunities outside of public accounting. Accordingly, the turnover rates at lower levels can be quite high compared to other professions. Figure 6 below shows Grant Thornton’s voluntary turnover experience below the partner/managing director level for the past three years.

Figure 6: Average annual turnover rates by level

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner/Managing Director to Manager</td>
<td>27%</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>Manager/Manager</td>
<td>14%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Manager/Senior Manager</td>
<td>45%</td>
<td>40%</td>
<td>29%</td>
</tr>
<tr>
<td>Manager/Associate</td>
<td>14%</td>
<td>15%</td>
<td>12%</td>
</tr>
</tbody>
</table>
Monitoring the retention rate of audit professionals is important, but the reasons for voluntary turnover are equally important. Accordingly, we conduct objective exit interviews of departing personnel to understand why they are leaving and where they are going. The majority of our departing professionals at every level leave for accounting and leadership opportunities in the corporate world. This has been especially true of our senior ranks over the past three years, as an improving economy has created a high demand for our audit professionals with that level of experience. Exit surveys conducted during FY 2016 indicated that, of the seniors voluntarily leaving the firm, 77.5% left to go into industry, made a complete career change or left the workforce entirely. We are working to manage the senior turnover rates by focusing on the work-life balance of our professionals and by ensuring that we have a strong pool of future senior candidates. To that end, in 2016 we made a substantial investment in our campus hiring — increasing our audit associates and interns by 22.5% and 28.6%, respectively.

Supporting high-quality audit delivery

We seek to provide exceptional support to our audit teams through excellent national office support, an audit methodology that is compliant with relevant auditing standards and customizable to every audit, and audit technology that provides the most effective and efficient service delivery possible.

Supervision, consultation and review

Every well-run audit firm has a staff of experts available to support engagement teams when infrequent and complex accounting and audit situations arise. At Grant Thornton we take pride in our national office, which not only provides exceptional advice and counsel to our teams, but also gets involved directly with our clients to help think through issues. Figure 7 shows that we average providing one national office professional for roughly every 25 direct client-serving audit professionals, and one national office partner or managing director for every 4-5 audit partners or managing directors. We have not seen many other firms publish statistics like these, but we believe Grant Thornton provides exceptional national office coverage.

We have a strong culture of consultation, supervision and support, which is embedded throughout the audit methodology. During FY 2016 we completed more than 2,500 formal consultations throughout the audit practice. Where involvement of a second partner is necessary, our National Professional Standards Group team and the national managing partner of Audit Services provide appropriate levels of quality control, as well as support for all audit partners and staff.

Audit clients whose securities are publicly traded are subject to an engagement quality control review (as required by the PCAOB’s Auditing Standards and ISQC 1) by partners who are specially certified to perform such reviews. Engagement Quality Review partners are also in place for other complex or high-risk-category clients to address certain quality and risk management matters.
Our overall approach to quality control in the U.S. owes much to the work of our National Professional Standards Group (NPSG), which consists of specialists in accounting principles, auditing and other attest standards, U.S. Securities and Exchange Commission (SEC) and other regulatory requirements, and ethics and independence guidelines. As the source of information on U.S. and international accounting principles and auditing standards, the NPSG helps practitioners at Grant Thornton and throughout our profession achieve technical excellence and high audit quality.

The NPSG is responsible for:

- Establishing policies related to accounting and auditing services
- Maintaining, updating and reviewing the firm’s accounting, auditing, independence and ethics, regulatory, and other audit services publications
- Providing timely information concerning current developments in the areas of accounting, auditing, ethics and independence, regulatory actions, and specialized industries
- Administering various professional and firm quality control functions and consulting on technical matters relating to accounting, auditing and SEC practices

Our global audit methodology, which is used by all GTIL member firms, provides audit teams with a clear and direct link between identified financial reporting risks, internal controls that address the risk and audit procedures. This approach enables audit teams to judge how the current environment affects an entity’s financial reporting, how the entity responded, and how to develop an appropriate audit response. The methodology contains integrated quality control processes — for example, policies and procedures on conducting an engagement quality control review.

Audit results are documented within the Voyager software tool and supplemented with external documents that are accumulated and archived within 45 days following completion of the audit. Audit files are retained for seven years following the completion of the audit in order to support our opinion and facilitate internal and external inspections.

But as strong as our audit platform is, it can always get better. It is in that spirit of continuous improvement that GTIL embarked in late 2013 on a five-year project to build a fresh audit methodology from the ground up, and implementing that methodology with world-class audit software. We have a global team of audit resources working on the methodology and we have partnered with Microsoft to develop our software tools. When we are finished we expect to have the best combination of methodology and tools in the business — a package that will meet the needs of today, yet be fully ready to embrace change for improved tools and techniques like robust data analytics. You can read more about our progress and plans in the section titled, The future is now — Audit innovation, on page 25.
Use of centralized service centers
Today most large firms utilize centralized service centers to perform certain audit procedures. The proper use of centralized services helps to increase the quality and efficiency, while at the same time enhancing the development opportunities for domestically based professionals. In 2012 Grant Thornton LLP opened a Shared Services Center in Bangalore, India. We call it the “Bangalore office” because our professionals there form more than just a centralized service center — they are an extension of the U.S. firm, just like any other U.S. office.

For the first two years Bangalore assisted only in the preparation of certain tax returns. Beginning in 2014, Grant Thornton LLP began staffing and utilizing audit resources in Bangalore. Our beginnings have been modest — representing only 0.1% and 0.7% of our audit hours in FY 2014 and FY 2015, respectively. In FY 2016 we increased that to 3.0% of total audit hours, with a plan to get to 5-10% over time. Our experience to date has been fantastic. We have high-quality professionals there who are consistently turning out an excellent product.

External factors
The quality of a client’s corporate governance and the robustness of its financial reporting systems are critical to audit quality. Our client acceptance procedures (see page 22) may raise concerns about a prospective client’s corporate governance processes, leading to careful consideration as to whether we accept that client. During the audit, if we identify weaknesses in governance and internal control systems, we work with our clients to develop actions for improvement. If necessary, we will also reconsider our continuing audit relationship.

The changing audit regulatory environment also has a clear impact on audit quality. We actively engage with regulators, standard setters and investors, shaping the dialogue for better reporting and supporting responsible regulatory change. Partners and staff participate in various boards, committees, working groups and forums, addressing a diverse range of topics and providing the firm’s view on developments and issues. In addition to supplying members to many FASB advisory committees and task forces, Grant Thornton professionals serve in a meaningful capacity in nearly 30 AICPA councils, committees and expert panels. We routinely send professionals on secondment to work with regulators, including the SEC, the FASB and the Office of the Comptroller of the Currency. And we have an active public policy function that works closely with lawmakers regarding topics that are important to the marketplace and the auditing profession. In matters that are important to financial reporting professionals and financial statement users, Grant Thornton is in the know and we have a voice.

Reporting to the Partnership Board
The national managing partner of Audit Services reports to the Partnership Board on an annual basis the findings of our engagement quality review process and any planned remedial actions. The results are also disclosed to the firm’s external regulatory bodies.

Individual engagement leaders are subject to both the firm’s reviews and external quality assurance reviews. Review findings affect those individuals’ annual audit quality grading, which in turn influences their compensation.
Continuing professional development
In addition to developing broad business insight, all of our professionals are required to maintain their technical competence and comply with relevant regulatory and professional development requirements. This is reviewed with our professionals as part of the annual appraisal process. Most states require accountants to obtain a minimum of 40 hours of continuing professional education every year. Figure 8 shows the average number of yearly training hours per FTE by level, for our audit professionals, which are well in excess of state requirements. Our training hours in FY 2016 were higher than average because we (1) invested in refresher training in auditing standards for all experienced audit personnel, as part of our audit innovation efforts, discussed further on page 25; and (2) increased training we committed to with the SEC, addressing key audit topics such as professional skepticism, fraud risk, judgments and estimates, etc. This significant increase in training formed an excellent foundation for our audit professionals as we look forward to a continuously improving Grant Thornton.

Within the audit service line, we have mandatory technical updates, as well as various courses on financial reporting, auditing matters, and ethics and independence. In addition, individuals with clients in particular sectors must attend industry-specific training, for example, on listed companies, financial services clients, benefit plans, not-for-profit entities and government entities.

We continually review the skills and competence of all our people and ensure that they meet the needs of their client engagements. We support professional development not only through structured learning programs, but also through opportunities for mentoring and secondment.

We aim to create an environment where our people are enthusiastic about what they do, perform to their best ability, and have the opportunities and support to develop their knowledge and skills.

Additional information about professional development at Grant Thornton can be found beginning on page 24.
Accountability and partner compensation

Responsibility for audit quality rests with every professional involved in audits. The ability and the commitment to get the job done right is a determining factor in our promotion and compensation system at every level, resting finally, and primarily, with the partners. Accordingly, in 2014 we implemented a new partner compensation program that more directly links compensation to audit quality.

As with most large accounting firms, our partners are owners of the business and share in the firm’s annual profit at a level equivalent to their percentage of ownership. Over time, and commensurate with their demonstrated contribution of value to the partnership, partners earn the right to increase their ownership percentage, and thus their annual compensation. For partners involved in delivering audit services, however, there is an additional step.

Annually we track positive and negative audit quality indicators, and assign a range of points to those indicators.

The points are tracked separately and not netted together. Positive points, over time, demonstrate high quality and can serve as support for an increase in a partner’s overall share of the partnership. Negative points demonstrate need for improvement and can result in economic penalties. Our goal is to reward long-term demonstrations of quality, and to encourage and direct potential improvements to quality where appropriate. The program is still very new, and we will be monitoring its effectiveness and making adjustments over the next few years to make this a useful measure for our audit quality progress over time.

Figure 9: Quality indicator examples

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive results from internal or external inspections</td>
<td>Negative results from internal or external inspections</td>
</tr>
<tr>
<td>Identification of a restatement in a period audited by another firm or partner</td>
<td>Restatements due to error or fraud</td>
</tr>
<tr>
<td>Identification of a significant engagement deficiency as defined by PCAOB Auditing Standard (AS) No. 7; or</td>
<td>Presence of a significant engagement deficiency as defined by AS No. 7</td>
</tr>
<tr>
<td>Demonstrated effectiveness in: handling difficult audit situations, conducting internal inspections or delivering training</td>
<td>Lack of full cooperation or support in conjunction with PCAOB, Annual Practice Review (APR) or other inspections</td>
</tr>
<tr>
<td>Seeking consultation when necessary</td>
<td>Inadequate consultations</td>
</tr>
<tr>
<td>Handling difficult client acceptance/retention situations well</td>
<td>Noncompliance with client acceptance/reacceptance process</td>
</tr>
<tr>
<td>Providing insightful improvement comments to audit committees and management</td>
<td>Resource allocations/personnel assignments that are inconsistent with desired tone at the top relative to quality</td>
</tr>
<tr>
<td>Motivating staff and encouraging high quality</td>
<td>Failure to archive one or more engagements within the time prescribed by our policy</td>
</tr>
<tr>
<td>Contributing important ideas to industry teams</td>
<td>Repeat findings or other pervasive issues</td>
</tr>
</tbody>
</table>
Grant Thornton International Ltd quality control procedures

In addition to our own quality control procedures, as a member firm of Grant Thornton International Ltd we are required to abide by a system of quality control that encompasses, at a minimum, the following standards issued by the standard-setting boards of the International Federation of Accountants (IFAC), including:

- International Standard on Quality Control 1: Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
- International Standard on Auditing 220: Quality Control for Audits of Historical Financial Information
- IESBA Code of Ethics for Professional Accountants

Each member firm’s system of quality control is designed to provide global and national management with reasonable assurance that audit engagements are conducted in accordance with applicable professional standards and global policies and procedures.

Member firms are required to have an effective internal inspection program in place that meets the requirements of ISQC 1. Member firms are provided with templates to assist them in adopting their internal quality control inspection. These templates include guidelines, work programs, forms and examples of reports, all of which have been benchmarked to ISQC 1.

Grant Thornton International Ltd’s support of robust audit delivery

Grant Thornton International Ltd views audit quality as an essential element of our business. To that end, GTIL provides resources to assist member firms in maintaining audit quality, including:

- An audit methodology, with supporting state-of-the-art software, that is used globally
- Policies and procedures contained in audit manuals that are benchmarked against international auditing, quality control, independence and ethics standards
- Protocols that enable member firms to consult with the global auditing standards team and, if necessary, with audit specialists in other member firms
- Protocols that enable member firms to consult with an International Financial Reporting Standards (IFRS) help desk
- A comprehensive intranet service that includes up-to-date information for member firms on auditing, financial reporting, ethics and independence standards, and guidance on applying them effectively

Each year GTIL and Grant Thornton make significant investments in education and training, covering such items as quality monitoring, group audits, auditing revenue, analytical procedures, internal control over financial reporting, and other key audit quality topics; enhancing supporting audit tools; and informing on current audit and accounting issues.
Grant Thornton Audit Review
Each GTIL member firm is obligated to submit to an inspection of its quality control system, referred to as the Grant Thornton Audit Review (GTAR), at least once every three years. The GTAR process is designed to monitor member firm compliance with professional standards and the global audit policies and procedures. The GTAR is conducted by independent and suitably qualified partners and managers from other member firms under the overall direction of the global audit quality control leader.

GTAR inspection teams review the conduct of audit work performed by each member firm. The inspection process includes an evaluation of policies and procedures of the member firm applicable to its audit practice, benchmarking those policies and procedures against relevant policies and procedures of the international organization and applicable audit standards. The inspection team reviews financial statements, audit reports, and engagement work papers and files. The inspection team also interviews partners and staff on various matters.

Quality monitoring
Inspecting the firm’s quality control system and audit engagements
Because our quality control systems are integral to performing quality audits, we perform an annual internal inspection of our quality control system and audit engagements. We also undergo several external inspections required by regulatory and membership organizations. These inspection activities are designed to determine whether the firm’s system of quality control and audit engagements is adhering to the standards promulgated by the various standard-setting bodies that oversee our profession, as well as compliance with our firm policies. The results of these reviews contribute to the quality aspect of our periodic partner performance evaluation.

Audit practice review
Grant Thornton LLP’s annual internal inspection program, known as the audit practice review (APR), is overseen by a national partner-in-charge of practice quality. The APR includes comprehensive testing of engagements and quality control policies and processes. The APR provides feedback on firm policy effectiveness and professional standards implementation, and identifies opportunities to improve engagement performance. Data gathered during the APR is used to benchmark partners and managers against their respective peers.
The review teams are selected from a combination of permanent internal inspection staff and audit professionals outside the office under review. Engagement partners are subject to possible engagement review every year, but no less frequently than once every three years. Reviews typically occur between April and September, and the engagements selected are biased toward those considered to be more complex or of higher risk to the firm. For example, issuer clients (those listed on a public exchange) represent approximately 10% of our audit client base, but 20% or more of our annual selections for internal inspection. At the completion of an office review, depending on the nature of any findings, the audit leader of the office may be required to develop and implement a targeted action plan to address the findings.

On an annual basis the findings are summarized centrally, and any themes or pervasive opportunities for improvement are communicated to the audit practice through training events, conferences and other technical update channels.

Figure 10: Summary of APR results

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliant</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Noncompliant</td>
<td>13%</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Non-issuer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliant</td>
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</tr>
<tr>
<td>Noncompliant</td>
<td>6%</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>

American Institute of CPAs (AICPA) Peer Review Program
The firm participates in the AICPA Peer Review Program, which requires a firm to undergo periodic external reviews of its audit quality control systems applicable to non-SEC issuer engagements. Our most recent Peer Review Report for the period ended May 31, 2014, is available on the AICPA’s website at the following web address using the Firm Number 10026656: http://peerreview.aicpaservices.org/publicfile/DocDefault.aspx.

Public Company Accounting Oversight Board
The Public Company Accounting Oversight Board (PCAOB) conducts periodic inspections of all registered public accounting firms, including annual inspections of firms such as Grant Thornton LLP that audit 100 or more issuers. The PCAOB’s process includes inspecting certain quality control elements and sampling SEC issuer engagements.

Inspection reports come in two parts. Part I is public and includes findings related to specific inspected engagements. Part II, which must remain private for at least 12 months after issuance, contains observations regarding a firm’s overall quality control processes, and/or comments regarding issues the PCAOB identified in Part I that they believe may be pervasive and warrant specific attention.

The PCAOB typically issues inspection reports for the large audit firms approximately 18-24 months after commencing an inspection. The inspection reports are dated for the calendar year in which the inspection began, and cover audits of companies’ most recently issued annual financial statements. Accordingly, our most recent PCAOB public inspection report was the 2015 report covering audits of companies with fiscal years ending typically on or around Dec. 31, 2014. The 2015 report was issued in March 2017.
Part II of our 2015 inspection report highlighted themes noted in Part I, namely: testing of internal control over financial reporting, auditing revenue and estimates. The report also encouraged continued improvement of the components of our quality control system that are most likely to drive consistent audit quality, namely: risk assessment and audit planning, the application of professional skepticism, and engagement supervision and review.

We have been making steady improvement in all of these areas over the past several years and we are committed to driving to the highest standards of quality. Since the completion of these audits, the firm has implemented a number of significant actions related to our quality control system, as well as other areas, and continues to invest resources focused on improving audit quality. (See Appendix A: Our quality journey.)

U.S. Department of Labor
The Employee Benefits Security Administration of the U.S. Department of Labor [DOL] has established an Audit Quality Inspection Program covering audits of plans subject to the reporting and disclosure requirements of the Employee Retirement Income Security Act of 1974 [ERISA]. Large firms like ours that perform more than 200 plan audits annually are subject to the “large firm” inspection approach, which includes reviewing firm policies and procedures, as well as inspecting a selection of employee benefit plan audits for compliance with professional standards and DOL rules and regulations. The DOL’s most recent inspection of our firm was completed favorably in 2017, with all inspected engagements being deemed acceptable.

<table>
<thead>
<tr>
<th>Inspection year</th>
<th>Audits inspected</th>
<th>Included in Part I</th>
<th>Percentage in Part I</th>
<th>Avg. of other global firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>36</td>
<td>20</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>2014</td>
<td>34</td>
<td>11</td>
<td>32%</td>
<td>42%</td>
</tr>
<tr>
<td>2015</td>
<td>34</td>
<td>14</td>
<td>41%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Effectiveness of quality control system
Grant Thornton’s Senior Leadership Team, through the office of the national managing partner of Audit Services, is responsible for the firm’s quality control system. The firm considers the following when evaluating the effectiveness of that system.

- Findings from:
  - The annual practice review program
  - PCAOB and any other regulatory inspections
  - Peer reviews in years subject to such reviews
  - GTARs in years subject to such reviews
- Annually gathered input from the NPSG, Audit Risk Management, and the Risk, Regulatory and Legal Affairs group (RRLA) regarding audit quality indicators such as restatements inspection results, and the degree to which professionals appropriately consult on complex issues during the year
- Findings published regarding the audit quality of other firms in the auditing profession

This flow of information provides the data necessary to drive continual improvement in our audit approach and execution.

An effective quality control system can provide only reasonable and not absolute assurance that a firm’s quality control objectives are met. On the basis of our review, the firm is satisfied that Grant Thornton LLP’s internal quality control system is operating effectively.

Engagement with regulators
Grant Thornton International Ltd member firms are expected to maintain an open and constructive relationship with their regulators. This is consistent with our global policy of embracing external oversight, along with our support of a balanced public reporting of external inspection programs. As a major international professional services organization, GTIL meets at least annually with the International Forum of Independent Audit Regulators and contributes regularly to the public debate on major industry issues.

All of Grant Thornton LLP’s PCAOB inspection reports are available online at http://pcaobus.org/Inspections/Reports/Pages/default.aspx
Managing risk begins with our ability to plan and execute audit engagements in the most effective and rigorous manner. To accomplish this goal, Grant Thornton LLP has established a comprehensive firm-wide business process for identifying, quantifying, evaluating and responding to the multifaceted forms of risk faced in connection with each audit engagement. Our process begins with an initial evaluation that matches the risks of each engagement with the skills of the team to ensure that resources deployed on each engagement have the appropriate technical competency and proficiency in the circumstances. Our risks arise from or relate to:

- Independence and ethical guidelines
- Client acceptance and continuance
- Compliance with regulatory requirements
- Recruitment and retention of talent
- Data security
- Business continuity and disaster recovery

**Independence and ethical guidelines**

Grant Thornton LLP employs a robust independence quality control system, meeting various standard setters’ requirements. Specific controls address audit partner rotation for listed and other public interest entities, and identify potential conflicts of interest. All partners and client-facing managers are required to maintain real-time investment records in a Grant Thornton International Ltd global database, while our ethical standards group identifies and helps to resolve any potential conflicts.

Grant Thornton LLP maintains written independence and ethical standards policies that are delivered to all personnel. In addition, all newly hired professionals are required to undergo independence and ethics training, and all professionals complete periodic training thereafter. Grant Thornton International Ltd and its member firms also enforce policies and procedures designed to assist in the prevention and detection of independence concerns.

Independence policies and procedures require:

- Maintenance of an updated list of restricted entities
- Independence self-reporting and certification by our personnel when submitting timesheets
- Self-reporting at least annually of other relationships that may be thought to bear on our independence
- Verification that the self-reporting of such independence and relationship matters is complete and accurate

Independence requirements include prompt reporting of any employment offer from an audit or other attest client, which then triggers a review and evaluation of the impact such offer may have on the work performed.
Because the “tone at the top” is central to an effective independence quality control system, the firm has developed a sanctioning process for noncompliance with our policies and procedures that is fully supported by our senior leadership team and partnership board. Annually we perform independence audits of partners, managing directors and managers. Partners in the audit chain-of-command, Senior Leadership Team members and Partnership Board members are audited at least every two years. Other partners and managing directors are audited at least every four years. During the 2015-2016 annual cycle, we audited 215 partners and managing directors. In addition, we randomly select approximately 100-150 managers for independence audits every year.

In addition to our own independence practices, Grant Thornton International Ltd requires member firms to adopt policies and procedures that have been designed to safeguard independence on audit engagements and identify circumstances that could pose a conflict of interest. The global independence policies and procedures are based on the International Ethics Standards Board’s Code of Ethics for Professional Accountants with supplements to govern compliance with our global independence and international relationship-checking processes. Member firms are also required to adhere to their local regulatory requirements where more restrictive.

Another key element in our independence and ethical practices includes communications with audit committees and those charged with governance (collectively, TCWG). For each audit client, our engagement teams communicate with TCWG to discuss matters that may reasonably bear on the firm’s independence and the execution of the audit engagement. At the end of each audit, the engagement team reviews with TCWG the results of the audit. For public audit clients, all nonaudit services are preapproved by the audit committee to ensure the independence and objectivity of the firm.

**Global Independence System**

Avoiding financial interests in an audit client, or its affiliate, prohibited by the independence rules is a key objective in maintaining the independence of member firms and the client service engagement teams. To help individuals and member firms achieve this objective, Grant Thornton International Ltd uses the Global Independence System (GIS), an automated tracking system that identifies restricted entities (issuers of publicly traded securities in which financial interests are prohibited or restricted). This information is made available to all personnel in all member firms.

Member firms and their partners, client-facing managers, spouses, spousal equivalents, and dependents are required to maintain in the GIS a record of financial interests. The GIS monitors compliance with the financial interest policies by comparing financial interests recorded in the system with a regularly updated list of restricted entities. Individuals and those responsible for compliance monitoring are notified by the system in the event a recorded financial interest is in a restricted entity. The GIS provides a mechanism to assist the individual in determining, based on the facts and circumstances, whether it is appropriate to hold the financial interest. Where it is not appropriate to hold the financial interest, it must be disposed of.

GIS compliance monitoring is performed at both the member firm and global levels.
Relationship checking
Grant Thornton International Ltd policy requires member firms and professional personnel from all service lines to maintain their objectivity when delivering services to clients. To avoid conflicts of interest and threats to independence arising from the provision of nonaudit services to audit clients or their affiliates, the identification of any existing client relationships prior to accepting an assignment is essential.

Policies and procedures at the member firm and global levels include processes designed to identify existing relationships. These processes also include requirements for appropriate consultation when relationships are identified prior to accepting new assignments.

Professional and ethical conduct
Professional Excellence Committee
The Professional Excellence Committee was established to further demonstrate the firm’s commitment to our global values. Its purpose is to ensure full consideration by the firm of alleged misconduct and policy violations of partners and managing directors; to help ensure fair and consistent treatment of partners, managing directors and other firm personnel; and to impartially and objectively evaluate alleged wrongdoing.

Code of Conduct
Our Code of Conduct is an extension of Grant Thornton’s global values, which provide the framework for the way in which we conduct business, serve our clients and behave, both within the firm and externally. A dedication to our global values of Collaboration, Leadership, Excellence, Agility, Respect and Responsibility (CLEARR) is the personal responsibility of every employee of Grant Thornton.

The Code of Conduct also includes policies that cover dealing with independence, conflicts, protecting confidential and proprietary information, records management, equal opportunity employment and diversity issues, complying with laws and regulations, including the Foreign Corrupt Practices Act, government ethics and contracting, and political activities.

Ethics hotline
At Grant Thornton, we believe ethical behavior is a necessary foundation for everything we do. Links to EthicsPoint, the independent third-party host of our Ethics Hotline, are available on our external website and on our intranet site to ensure that both our firm professionals and our clients have the opportunity to uphold our standards. Reports can be made anonymously and are forwarded to the appropriate personnel for review within 24 hours.
OUR GLOBAL VALUES

Collaboration
- Provide distinctive client service to all Grant Thornton clients, regardless of origin
- Share knowledge, opportunity and best practices for the benefit of our clients and the development of our people
- Bring a global perspective to our advice and our actions
- Cooperate with others to get things done and achieve results
- Work together to bring resources and know-how to serve all clients
- Take pride in our global identity, and make it part of our everyday language

Leadership
- Represent Grant Thornton in a way that enhances our reputation and distinguishes our firm and our people in the marketplace
- Take a leadership position on issues of importance to our profession, the firm and the public interest
- Lead and communicate with clarity and confidence
- Exercise initiative to make a positive difference
- Have the courage to live our values without compromise in word and action; commit to doing what is right
- Challenge ourselves to be the best we can be, and inspire others to reach their full potential

Excellence
- Be better tomorrow than we are today, individually and collectively
- Continue investment in our own and others’ development
- Attain the highest level of competence in our area of expertise
- Develop leading-edge solutions that set the benchmark in our profession
- Achieve the highest standards of quality and innovation in everything we do

Agility
- Understand the world in which we live and work, and anticipate how changes might affect our various stakeholders
- Create and communicate clear expectations, define roles and responsibilities, and empower each member of the team
- Ensure that the right people are doing the right work
- Thrive in change; understand the “why,” and help others to do so
- React positively and respond quickly to changes in direction
- Make objective, timely decisions, and act on them promptly

Respect
- Seek first to understand and then be understood
- Treat others as we would like to be treated
- Consider, with an open mind, the perspective and opinion of others
- Give and seek regular, open and honest feedback so that we improve and grow at all levels
- Acknowledge and promote the mindset that work is only one part of life
- Express genuine appreciation for others’ contributions
- Resolve differences promptly — with compassion and understanding

Responsibility
- Act as stewards to pass on a more valuable organization to the next generation
- Make decisions that look to the long term and consider the wider impact, in addition to our immediate objectives
- Act with integrity; be transparent in carrying out our duties, accept accountability for our results and use our influence wisely
- Honor our commitments; do what we say we will do, when we say we will do it
- Speak up if something “feels wrong”
- Acknowledge our contribution to mistakes, act promptly to rectify them, and, in so doing, gain new insights and awareness
Client acceptance and continuance

The firm’s client acceptance policies and procedures represent a central element of our approach to quality control. Key partners actively participate in and approve the acceptance of every new client. Audit engagements that meet specific criteria require the approval of the national managing partner of Audit Quality and Risk Management and some require approval by a committee of senior partners. Tax, advisory and other services also undergo a formal acceptance process to prevent any proposed non-audit services from creating independence conflicts.

Concerns are evaluated carefully so that we engage only clients whose profiles match our standards of integrity. The firm requires a determination, at least annually or as certain events occur, of whether our relationship with a client should be continued.

In 2014 we added resources to our National Professional Standards Group with specific experience in evaluating financial reporting, audit and securities litigation risk, primarily in public companies. We now employ a host of independent analytical tools, including data from Audit Analytics, MSCI and others to evaluate risk during the client acceptance and continuance evaluation process.

Grant Thornton International Ltd establishes key assurance assignment (KAA) criteria that member firms use to evaluate potential assignments. Member firms submit to an international review committee for consideration of the potential assignments that meet the KAA criteria.

The assurance client acceptance review committee reviews submitted KAAs to judge whether the member firm has the ability to perform the audit with a high level of quality. This committee is chaired by the executive director-quality control and comprises risk management/quality control partners from a diverse group of selected member firms.

Compliance with regulatory requirements

Grant Thornton considers compliance with applicable laws, industry regulations and codes to be an integral part of doing business. Rigorous policy statements, procedures, controls and codes of conduct foster compliance with all applicable regulatory requirements. In addition, partners and staff are dedicated to implementing, monitoring and maintaining an operationally effective control environment across all service lines.

- We work with organizations such as the AICPA and state CPA and accountancy societies to evaluate and improve the quality of our professional services.
- We meet with regulators, such as the SEC, the PCAOB, the IRS and others, to discuss matters of concern to audit and tax professionals, and we regularly issue public comments and other forms of thought leadership to address technical and policy issues.
- We maintain strong programs, protocols and controls to satisfy statutory and regulatory compliance obligations.
Recruitment and retention of talent

The people of Grant Thornton are essential to our firm’s ability to deliver best-in-class services. In addition to measuring and compensating for performance, our talent management program identifies our firm’s future leaders and helps our people achieve their highest career aspirations. We recruit new talent aggressively, provide continuous training and learning opportunities, and support our people with the experiences and an environment to maximize the efficiency and reliability of our services. Role expectations and career opportunities are published for all levels to help employees and partners better understand the requirements of their positions.

Data security

The Grant Thornton security program establishes policies, processes and organization structure necessary for the appropriate enablement and management of Grant Thornton’s information security requirements and risks. The tenets of the program are the confidentiality, integrity and availability controls, which are selected based upon the classification of the information our firm is entrusted to protect.

Confidentiality and integrity controls

Following are examples of Grant Thornton’s confidentiality and integrity controls:

- **Administrative** — New-hire background checks, security and privacy policies, incident response procedures, and change management processes.
- **Physical** — Access control mechanisms to secure areas, handling and disposal of hardcopy materials, environmental controls, and media disposal and sanitization procedures.
- **Technical** — Laptop encryption, password requirements enforcement, patching processes, network intrusion detection systems, firewalls, encryption of information across untrusted networks, mobile device management, malware and virus detection software, and controls to track and disable lost or stolen equipment.

Availability controls

Business continuity and disaster recovery

Because excellence in quality control encompasses a consistently stable and accessible business platform, Grant Thornton relies on enterprise-grade technologies designed to ensure business continuity and disaster recovery. Grant Thornton’s leadership places a strategic priority on the systems and information necessary to deliver our client services.

All enterprise systems are monitored 24/7 and are highly standardized to mitigate compatibility issues. Information stored within each Grant Thornton data center is backed up daily and maintained off-site. All workstation data backups are automated and utilize software to ensure the recovery of data that has been backed up, even if the computer is lost or stolen.

We provide protection for the availability of systems and information in a variety of ways, including:

- To resist single points of failure, high availability is incorporated into the architecture of mission-critical systems. Information processed by these key systems is also replicated to alternative processing facilities. Our disaster recovery strategy incorporates periodic testing of recovery plans.
- Network traffic is supported by diverse paths leveraging multiple carriers.
- Service continuity requirements are carefully monitored with third parties that store or process Grant Thornton information.
- Backup power generators are installed at service centers to enhance infrastructure resiliency. Uninterruptible power systems are installed at site locations where controlled shutdown of equipment is necessary.

Grant Thornton includes workforce recovery management in our business continuity practices. We leverage an emergency notification system for rapid response to disruptive events. Grant Thornton operates an enterprise risk management council, which includes members of the firm’s executive leadership team, to mitigate service delivery threats.
Continuing professional education

Audit training and professional development

Our partners and personnel work together to improve the technical and professional skills of all individuals in the firm through a program of coordinated continuing education. All partners and professionals must comply with state and firm continuing professional education (CPE) requirements — all of which are monitored. In addition, professionals at the manager level or above must qualify under the firm’s “SEC Designation Program” before being assigned to a lead role on an SEC audit engagement. Qualification requires certain experience and periodic training specific to public companies.

The firm provides our professionals with a wide variety of training programs to enhance the following:

• Technical accounting, SEC regulatory and auditing knowledge
• Skills in applying the firm’s audit policies, methodology and tools
• Fraud prevention and detection
• Leadership, communication and interpersonal skills
• Independence and ethics
• Industry expertise
• General business knowledge

The firm uses a variety of training delivery methods, including national conferences, local-office training programs, firm-wide webcasts and online self-study programs, as part of our learning outreach. The firm maintains an Audit Learning Library, which includes nationally developed training courses for local-office delivery. In addition, all personnel have access to my GTU, the firm’s learning portal, which provides relevant and timely webcasts and self-study programs. Where specific topics may not be available from a firm-sponsored program, professionals attend courses and events offered by qualified external providers.

NASBA certification

The National Registry of CPE Sponsors (the Registry) is a program offered by the National Association of State Boards of Accountancy (NASBA) to recognize CPE program sponsors who provide CPE programs in accordance with nationally recognized standards. In 2009, Grant Thornton was certified for CPE sponsorship through NASBA and is now listed on the Registry, demonstrating our commitment to offering only programs that will improve professional competence.

While the majority of technical training takes place within member firms, Grant Thornton International Ltd makes a significant investment in ongoing training for audit staff in all member firms in the global audit methodology and supporting technology, and in IFRS. Programs include such topics as quality monitoring, group audits, auditing revenue, analytical procedures, IFRS technical and interpretive guidance, and several other key audit quality topics. Supplemental guidance is provided via bulletins on current audit and accounting issues.
The future is now —
Audit innovation

In late 2013, Grant Thornton International Ltd committed to a significant investment in the future of auditing. A little more than three years later and we are starting to see the fruits of that effort. Working in a collaborative effort across the globe, Grant Thornton professionals and over 100 programmers from Microsoft have been working to design and build what we believe will be the premier audit methodology and delivery system in the world. We call it LEAP, for Leading an Effective Audit Practice.

Project LEAP

LEAP is designed to drive quality, flexibility, efficiency and a superior experience for our professionals and our clients.

Improve audit quality even further
LEAP’s audit methodology and terminology are taken directly from existing auditing standards, but it is built to adjust easily to changes as the auditing profession evolves to incorporate a greater level of data analytics and machine learning. Contextual guidance and learning are also built into the tool to improve auditor knowledge.

Flexible and engaging
Engagement teams will have the opportunity to design audit responses tailored to their clients’ audit risks rather than responding to prepopulated lists of procedures. The engagement teams will have relevant guidance and learning at their fingertips as they make their risk assessment, design their audit response and perform audit procedures. Through our work with Microsoft we are driving to ensure the technology includes the most modern user interfaces to provide the best working experience for our people. And the methodology is aligned to international, U.S., and PCAOB standards, which facilitates compliance anywhere in the world.

Provide a better experience for our clients
Through targeted industry guidance and insights, our auditors will better understand our clients’ business issues while providing a higher-quality audit. Where appropriate and allowed by the standards, our auditors will then be able to deliver meaningful insights that add value.

Data analytics and other innovation

By equipping our professionals with truly innovative analytical tools, we are working to deliver a superior independent audit, bringing all of our clients’ financial data into clear focus. Our predictive modeling and whole ledger analytics serve to guide our risk assessment and enable a new level of data-driven decision-making.

Audit quality
Our next generation audit approach rests on a foundation of advanced analytics tools and capabilities. Grant Thornton is a pioneer in this space and continues to develop industry-leading audit data analytics. Toward this end, we are developing a culture of analytics. Our team of experts is trained in using data to inform their decisions, “listening” to the data, asking the right questions, and using the right data and tools to execute the audit approach.

Our process
Our process begins with a sophisticated program for profiling current and prospective clients for risks related to financial reporting fraud, restatement, material weakness, bankruptcy and corporate governance issues. Our proprietary process is used to create and maintain a portfolio of clients that are aligned strategically with Grant Thornton’s focus on audit quality and continuous improvement.

Data ingestion tools are used to efficiently and seamlessly extract and load client data, saving valuable time. A separate battery of proprietary tools and analyses, developed by leading experts in data analytics, are applied to interrogate this data. We use the insights obtained from this analysis to gain an even deeper understanding of our clients’ business, which helps us tailor our questions and improve both our effectiveness and efficiency.
We deploy a number of advanced routines and algorithms. These tools facilitate early identification and mitigation of potential reporting and internal control risks and allow us to zero in on the data and trends with the highest risk and impact potential. Our tools and techniques include:

- Account combination analysis
- Digital, textual and letter analytics
- Trend visualization and regression
- Benchmarking
- Transactional scoring
- Visualization and dashboards

**Business insights**
Using our proprietary tools, our professionals are able to extract more actionable information from our clients’ data. We are working to identify high-risk transactions, human error and process inefficiencies with unparalleled precision, which enables us to provide greater value and business insight at the same time we are improving the quality of our audits.

**A culture of analytics**
At Grant Thornton, we live and breathe data. We’ve long been pioneers in advanced audit analytics, so we know firsthand that new generation technology is only as good as the people who use it. The right people, asking the right questions, and using the right tools to answer these questions, are central to our culture, and our audit approach. Analytics are incorporated by our professionals at every stage of the audit; from planning and risk assessment, evaluation of controls and substantive testing, to concluding and reporting.
Appendix A
Our quality journey

Earlier, we talked about the nature and positive results of our most recent quality journey. Beginning in 2010, Grant Thornton embarked on a renewed and continual process to drive exceptional quality while maintaining our superior level of service.

2010

- Hired a lead inspector from the PCAOB to become our National Managing Partner of Audit Risk Management, including internal inspections and overseeing client acceptance. This hire elevated and formalized a role previously held part-time by an experienced line partner.
- Formalized a previously informal audit partner quality tracking process, moving it under the umbrella of Audit Risk Management.
- Changed our Partner-in-Charge of Audit Methodology to inject fresh thinking into this important role.

2011

- Issued the Audit Quality Pre-issuance Review Checklist. The checklist is a review tool for audit teams to use as they complete engagements. It summarizes issues to consider, focusing on new and emerging guidance and other audit quality issues. The checklist also provides links to relevant guidance and training.
- Implemented a new tool for auditing estimates and reinforced engagement teams’ audit approach with respect to management bias and retrospective reviews.
- Revised and improved our substantive testing and sampling approach related to auditing revenue.

2012

- Enhanced our audit partner quality tracking database to improve the technology and began tracking a larger population of audit-quality indicators. Every year since we have enhanced the process, driving increased linkage of audit quality to partner compensation and advancement.
- Implemented a new requirement for an all-hands meeting at the completion of the planning phase of the audit to review and approve the audit approach, using a standard outline for the agenda that highlights relevant, current areas of focus. These meetings are required for all public company audits and other audits with certain risk characteristics and must be documented in the form of a file memorandum.
- Formed the Internal Control Over Financial Reporting (ICFR) Resource Center to provide ICFR expertise and skills to public company audit engagements, and implemented new ICFR testing templates to improve the quality and consistency of ICFR testing.
- Developed and delivered a training course, “Public Company Audit Training (PCAT): Focus on internal control,” to address issues identified in issuer audits. The PCAT training was delivered at each office and was required for all partners, managers, in-charge and engagement quality reviewers performing (or expecting to perform) public company audits.
- Formed a National Banking Audit Task Force focused on improving the quality of financial institution audits.
- Began increasing the permanent staff in our Audit Risk Management Group. By the end of FY 2015, full-time-equivalent headcount in the group grew by 268% (from five to more than 18).
- Developed a robust audit issues root-cause process and database.
2013

- Released a new practice aid, the Prospective Financial Information Evaluation Toolkit to assist audit teams in evaluating assumptions included in prospective financial information used by an entity in the preparation of its financial statements.
- Implemented a revised, robust audit approach related to the allowance for loan losses at financial institutions.

2014

- Developed the Audit Quality Monitoring Tool (AQMT) for audits conducted under PCAOB Standards. The AQMT provides a work plan for a separate reviewer, independent from the engagement team and apart from the Engagement Quality Reviewer, to review the audit workpapers in key risk areas to ensure that the audit opinion is properly supported.
- Hired a financial data analysis specialist to develop audit and client risk-screening tools and methodologies.
- Established audit quality awards, including monetary awards to professionals who exhibited exceptional quality on audit engagements.
- Flattened our organizational structure from five regions to three, and from 57 individually managed offices to 11 market territories. These changes enabled us to improve the speed of our improvement efforts and the accountability for the success of those improvements.

2015

- Moved the reporting relationship of our Professional Standards Partner resources into the national office — changing their title to Professional Practice Directors (PPDs) reporting directly to the regional National Professional Practice Directors (NPPDs). These partners, who have quality oversight responsibilities at the local office and market territory levels, previously reported to local office leadership.
- Developed a new resource management function, including hiring a national manager of resource management; assigning resource managers to each market territory; and putting structure, consistency and strategy around the function. The resource managers have formalized guidelines to assist them in staffing appropriate resources to engagements. These guidelines include key factors to consider in staffing engagements, such as technical/industry expertise, quality, balance of team strengths, continuity where appropriate and other factors.

2016

- Established the Audit Center of Excellence (COE). Building off of the success of the ICFR Resource Center, the firm expanded the concept into a firmwide coaching model. The COE comprises approximately 30 experienced professionals — all vetted through the firm’s national offices — who will help coach select engagement teams through complex audit areas.
- Kicked off Project Tempo. Designed to improve quality, reduce late surprises and provide greater balance for our people and our clients, Project Tempo is designed to move more work earlier in the audit cycle.

Throughout the period

- More than doubled the size of our audit methodology group, including a more than sixfold increase in the number of partners and managing directors.
- Drove changes in our APR process to make it more closely parallel the PCAOB’s inspection process.
- Conducted specialized training on supervision and review, professional skepticism, journal entry testing, ICFR, estimates, fair value and allowance for loan losses.
- Routine collaboration with the PCAOB on the changes we have made and are in the process of making to improve audit execution and oversight.
Appendix B

Our governance structure

Grant Thornton LLP is structured as a limited liability partnership and is governed by the chief executive officer (CEO), Senior Leadership Team and Partnership Board. Below is a summary of the responsibilities and the current names and operating positions of each member of the governance team.

Chief executive officer
CEO Mike McGuire is responsible for managing the U.S. firm’s business and making recommendations to the Partnership Board. The CEO is elected by the Partnership Board to serve a four-year term (for a maximum of two terms). The CEO:

• Manages the partnership’s practice and business
• Makes recommendations to the Partnership Board regarding certain matters, including senior leadership appointments and compensation
• Appoints and removes partners and principals as members of national leadership or as managing partners or managing principals (other than senior leadership)
• Assigns partners and principals to offices or regions
• Appoints other persons and establishes committees to assist in the performance of the CEO’s responsibilities
• Consults with any international organization of which the partnership is a member and with any other members of such international organization
• Provides the Partnership Board with initiatives for the partnership’s policies, strategy and direction
• Borrows funds on behalf of the partnership
• Provides annual financial and settlement statements to the partners
• Presides at the annual and special meetings of the partners and principals
• Reports periodically to the partners and principals on the state of the partnership and its practice and business

Senior Leadership Team
The Senior Leadership Team (SLT) sets strategy and oversees operations for the firm. Members are appointed by the CEO. The following individuals currently serve on the SLT.

<table>
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<th>Our Senior Leadership Team</th>
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<tr>
<td>Mike McGuire</td>
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<tr>
<td>Jacqueline Akerblom</td>
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<td>Jeff Burgess</td>
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<td>Terry Bilbo</td>
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<td>Ken Cunningham</td>
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<td>Nichole Jordan</td>
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<tr>
<td>Jamie Fowler*</td>
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<td>Srikant Sastry</td>
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*Effective Aug. 1, 2017, Jamie Fowler succeeds the retiring Randy Robason as National Managing Partner, Tax.
**Partnership Board**

The Partnership Board (the board) is the firm’s governance body, consisting of 10 elected members and the CEO, who is appointed by the board. Elected Partnership Board members serve a three-year term and, while serving on the board, cannot be a member of the SLT.

The board has the duty and authority to approve the partnership’s philosophy and direction, formulate governance guidance policies, and review and oversee the activities of the CEO, senior leadership and partnership operations.

The board also approves the partnership’s annual business plans and budgets, appoints and removes the chair of the board, appoints the CEO, and handles other related matters.

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<th>Our Partnership Board</th>
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<tr>
<td>Dave Wedding (Chair)</td>
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### About Grant Thornton LLP

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### Offices of Grant Thornton LLP

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